

## Message Text

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ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 /026 W  
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O 101226Z AUG 76

FM AMEMBASSY LONDON

TO SECSTATE WASHDC IMMEDIATE 4403

S E C R E T SECTION 01 OF 03 LONDON 12458

EXDIS

FOR ASST SECRETARY GREENWALD FROM UNDER SECRETARY ROGERS

E.O. 11652: XGDS-1

TAGS:

SUBJECT: CONSULTATION WITH FRANCE, FRG AND UK ON CIEC

1. SUMMARY: MY VISITS WITH YEO AND HORMATS IN BONN, LONDON AND PARIS CONVEYED OUR OWN INTERNAL COHESION WITH RESPECT BOTH TO US SUPPORT FOR CONTINUED CONSTRUCTIVE DIALOGUE WITH THE DEVELOPING COUNTRIES IN CIEC, AND TO THE LIMITS TO WHICH WE MIGHT GO ON DEBT, INDEXATION, AND COMMON FUND. FRENCH, GERMAN AND BRITISH OFFICIALS MADE NO EFFORT TO HIDE THE DIVISIONS WITHIN THEIR OWN RANKS, THEY WERE RECEPTIVE TO OUR APPROACH AND SEEMED TO RESPOND POSITIVELY TO THE PROSPECT OF US FIRMNESS AND LEADERSHIP ON THE ISSUES. CONCLUSION: WE ARE PRETTY MUCH ON THE RIGHT COURSE IN OUR REACTION TO THE CIEC IMPASSE. FOR THE MOMENT IT IS UP TO MACEACHEN.  
END SUMMARY.

2. THE BETTER PART OF THE DISCUSSIONS IN THE THREE CAPITALS FOCUSED ON RECENT DEVELOPMENTS IN THE CIEC AND WAYS TO PROCEED IN THE DIALOGUE. THE US SIDE STRESSED OUR DESIRE TO MAINTAIN CIEC AS A POTENTIALLY USEFUL FORUM FOR MAINTAINING A MANAGEABLE DIALOGUE BETWEEN KEY NATIONS OF THE DEVELOPED AND DEVELOPING WORLDS. IT UNDERLINED, HOWEVER, THAT DEVELOPED NATIONS SHOULD NOT BE PREPARED TO PAY AN OVERLY HIGH PRICE TO SEE CIEC

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CONTINUE. NOR SHOULD DEVELOPED NATIONS LEAD DEVELOPING

NATIONS TO BELIEVE, THROUGH ARTFUL WORDING OF DOCUMENTS, THAT WE WOULD ULTIMATELY AGREE WITH THEIR POSITIONS ON SUCH ISSUES AS DEBT WHEN, IN FACT, WE HAD NO INTENTION OF DOING SO. THIS MIGHT BUY A BIT OF TIME, BUT, BECAUSE WE HAVE VERY LITTLE OF IT LEFT, WE MUST SOON DECIDE HOW TO MEET THE FUNDAMENTAL ISSUES HEAD ON RATHER THAN CONTINUING TO PAPER OVER DIFFERENCES, WITH REAL ANSWERS RATHER THAN AGREEING TO AMBIGUOUS WORDING, WHICH WOULD ULTIMATELY LEAD TO A CONFRONTATION AND GREATER FRUSTRATION AT THE CIEC MINISTERIAL.

3. WITH RESPECT TO DEBT, WE REVIEWED THE PROBLEMS WHICH GENERALIZED RESCHEDULING WOULD CAUSE THE MAJORITY OF DEVELOPING NATIONS, ESPECIALLY THOSE INVOLVED IN INTERNATIONAL CAPITAL MARKETS. WE POINTED OUT THAT DEBT, OTHER THAN THE ACUTE CASES, IS A DEVELOPMENTAL CONSTRAINT FOR ONLY A FEW COUNTRIES -- INDIA AND PAKISTAN IN PARTICULAR -- AND THAT THEY WERE NOT IN THE VAN OF THE G-19 AT PARIS. IRAN AND ALGERIA, THE REAL RINGLEADERS OF THE DEBT IMPASSE, ARE NOT PREJUDICED BY SERIOUS DEBT DIFFICULTIES. IN ALL EVENTS, DEBT IS ONLY PART OF THE BALANCE OF PAYMENTS AND THEREFORE CAN BE APPROACHED CONSTRUCTIVELY IN ONLY THE BROADER CONTEXT. YEO POINTED OUT WITH PARTICULAR PERSUASION TO THE FRENCH THAT OUR PRESENT APPROACH TO DEBT IS CONSISTENT WITH THE USE OF THE PARIS CLUB FORMULA; THE MORE GENERALIZED APPROACH MIGHT LEAD US AWAY FROM PARIS, AND DILUTE FRENCH INFLUENCE ON THAT ACCOUNT. THE US SIDE MAINTAINED THE VIEW THAT WE WERE WILLING TO DISCUSS COMMON FEATURES RELATING TO HOW DEBT WAS RESCHEDULED AND OTHERWISE CONSIDERED, BUT THOSE FEATURES WOULD NOT GOVERN WHEN TO RESCHEDULE, BUT ONLY HOW.

4. THE US SIDE POINTED OUT FURTHER THAT IT WOULD BE UNWISE TO GIVE THE DEVELOPING COUNTRIES THE IMPRESSION NOW, IN WRITING A COMPROMISE WORK PROGRAM TO GET THE SEPTEMBER SESSIONS BACK ON TRACK, THAT WE WERE NOT SERIOUS ABOUT OUR INTENTION TO MAINTAIN THIS POSITION. WHILE ARTFUL WORDING OF THE CIEC WORK PROGRAM MIGHT BE DESIRABLE, IT SHOULD NOT BE ALLOWED TO IMPLY THAT WE

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ARE GOING TO BE DIVERTED IN DECEMBER. IF WE ALLOW THE G-19 TO BE MISLEAD NOW, WE RISK A CHARGE OF DUPLICITY THEN. BETTER BE CHARGED WITH INTRANSIGENCE IN AUGUST THAN WITH RENEGING NEXT WINTER.

5. AS A GENERALITY, THOUGH THERE WERE DISSENTS AND INDIVIDUAL VIEWS, THE OTHER GOVERNMENTS BROADLY SHARED

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THE US ATTITUDE. MOST THOUGHT THAT A MAIN REASON WHY THE G-19 UPPED THE THEOLOGICAL ANTE ON DEBT AND INDEXATION WAS THAT THEY DID NOT SEE CIEC PRODUCING RESULTS DRAMATIC ENOUGH TO ENABLE THEM TO CLAIM RESOUNDING SUCCESS BACK HOME. FURTHER, A NUMBER OF THE LDC'S THOUGHT THAT THE ELECTIONS IN THE MAJOR DEVELOPED COUNTRIES MIGHT LEAD TO SOFTER POSITIONS. AND THE POOREST COUNTRIES HOPED TO GET SOMETHING OUT OF THE CIEC THROUGH ADDITIONAL PRESSURE TO MATCH WHAT THEY CONCEIVE TO BE THE REWARDS WHICH THE RAW MATERIAL EXPORTERS REAPED AT UNCTAD.

6. THE THREE GOVERNMENTS WITH WHICH THE GROUP SPOKE EXPRESSED THEIR DESIRE TO CONTINUE THE DIALOGUE, BUT WITH VARYING DEGREES OF ENTHUSIASM. THE FRENCH PLACED GREAT EMPHASIS ON THE DIALOGUE'S CONTINUATION. THEY ARGUED THAT A MAJOR EFFORT SHOULD BE MADE TO WORK OUT DIFFERENCES WITH THE G-19 OVER THE NEXT SEVERAL WEEKS, ALTHOUGH THEY AGREED THAT WE SHOULD NOT GIVE UP OUR ESSENTIAL POSITIONS. THEY FURTHER AGREED THAT IF BETWEEN NOW AND DECEMBER CHANCES FOR POSITIVE RESULTS ARE NOT GREAT ENOUGH TO WARRANT HOLDING A MINISTERIAL, WE COULD DECIDE TO CANCEL IT AT ANY TIME BUT WE SHOULD DO SO IN AS ARTFUL AND NON-CONFRONTATIONAL A WAY AS POSSIBLE. THEY ARGUED STRONGLY, HOWEVER, THAT WE NEED NOT AND SHOULD NOT MAKE SUCH A DECISION NOW BUT ALLOW THE PROCESS TO CONTINUE AND TO MAKE EVERY EFFORT TO

ENSURE ITS SUCCESS. NEITHER THE BRITISH NOR THE GERMANS

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EXPRESSED THE SAME DEGREE OF ENTHUSIASM FOR THE DIALOGUE BUT WERE HOPEFUL THAT WE COULD GET THROUGH WITH MODEST SUCCESS AND A MINIMUM OF DAMAGE. BOTH WERE WORRIED THAT IF CIEC FALTERED THE DEVELOPING COUNTRIES COULD RESORT TO USE OF BROADER FORUMS SUCH AS UNCTAD. BUT BOTH AGREED THAT WE SHOULD NOT PAY TOO HIGH A PRICE TO MAINTAIN CIEC, AND CERTAINLY SHOULD NOT HAVE A MINISTERIAL MEETING IF IT WOULD MERELY LEAD TO AN ESCALATION OF DEMANDS ON US. FURTHER, CONVERSATIONS IN BONN AND LONDON REVEALED CONSENSUS ON THE FACT THAT MEETINGS HAVE TO DATE FOCUSED PRIMARILY ON THE AGENDA AND DEMANDS OF THE DEVELOPING COUNTRIES. THEY HAVE MADE OUR RESPONSES TO THEIR DEMANDS A TEST OF INDUSTRIALIZED COUNTRY COMMITMENT TO IMPROVED RELATIONS WITH DEVELOPING NATIONS. WE NEED TO REVERSE THIS PROCESS BY DEVELOPING A SET OF OUR OWN PROPOSALS, SUPPORTED BY THE DEVELOPED NATIONS, WHICH ENABLE US TO TAKE THE INITIATIVE.

7. ALL THREE COUNTRIES VISITED, REFLECTING ON RECENT DISCUSSIONS IN THE EC, INDICATED THAT THE EC LETTER SENT TO MACEACHEN ON DEBT WAS A SIGNAL OF EUROPEAN SYMPATHY FOR THE DESIRE OF THE DEVELOPING COUNTRIES TO HAVE THE DEBT PROBLEM DEALT WITH SERIOUSLY IN THE DIALOGUE, BUT IT WAS NOT A COMMITMENT TO THE DEVELOPING COUNTRY ASPIRATIONS FOR A GENERALIZED MORATORIUM. THE FRENCH ARGUED STRONGLY FOR US SUPPORT FOR THE EC FORMULATION, STRESSING THAT IT WAS A REASONABLE ONE. IF THE DEVELOPING COUNTRIES TURNED THE OFFER DOWN, THEN IT WAS THEY WHO COULD BE BLAMED FOR BREAKING UP THE DIALOGUE, RATHER THAN THE DEVELOPED COUNTRIES. WE POINTED OUT THAT WE DID NOT OFFICIALLY HAVE THE EC LETTER (THE BRITISH HAD GIVEN IT TO US ON TUESDAY) AND COULD NOT THEREFORE COMMENT ON IT. WE DID, HOWEVER, NOTE THAT ITS LANGUAGE DID NOT SEEM TO US A MONUMENT OF CLARITY, AND WE REPEATED OUR EARLIER WARNINGS ABOUT FALSE HOPES AND MISUNDERSTANDINGS.

8. WE AND THE FRENCH FELT THAT THE NEXT STEP WAS TO ALLOW MACEACHEN TO TRY HIS HAND AT ANOTHER ROUND WITH PEREZ-GUERERO ON THE BASIS OF THE GUIDANCE PROVIDED BY THE EC, US AND OTHER MEMBERS OF THE G-8. HOPEFULLY, THIS ISSUE COULD BE RESOLVED BEFORE THE COLOMBO MEETING

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OF THE NON-ALIGNED.

9. BEYOND THAT, WE AND THE FRENCH WERE AGREED THAT IT WOULD BE USEFUL TO SKETCH OUT A DESCRIPTION OF WHAT MIGHT ULTIMATELY BE AGREED AT THE CIEC.

10. OUR DISCUSSIONS OF THE COMMON FUND REVEALED FUNDAMENTAL OPPOSITION TO THE CONCEPT BUT A DESIRE WITH SOME TO TRY TO MODIFY IT TO CONSIDER THE NEEDS OF THE INDUSTRIALIZED COUNTRIES. THE BRITISH ARGUED THAT THIS ACTIVIST STRATEGY WOULD BE A WAY OF REDUCING THE MOST NOXIOUS ASPECTS OF THE COMMON FUND. THEY WERE UNDER PRESSURES FROM THEIR DOMESTIC LEFT AND THE COMMONWEALTH TO BE MORE CONCILIATORY TOWARD THE DEVELOPING COUNTRIES ON THIS ISSUE BUT ALSO FELT STRONG INTERNAL FINANCIAL

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PRESSURES WHICH ARGUE FOR RESTRAINT. THEY BELIEVE THAT THE BEST WAY TO PREVENT THE COMMON FUND FROM BEING ESTABLISHED AS AN INSTITUTION INIMICAL TO DEVELOPED COUNTRY INTERESTS WAS TO PLAY A ROLE IN ALTERING AND IMPROVING IT. THE US SIDE STRESSED THE NEED TO BE CAUTIOUS IN ORDER TO AVOID BEING "SALAMIED". MOREOVER, PROVIDING RESOURCES TO THE COMMON FUND WOULD DIVERT THOSE RESOURCES FROM MORE IMPORTANT DEVELOPMENT PURPOSES AND HELP A HANDFUL OF DEVELOPING COUNTRIES AT THE EXPENSE OF A NUMBER OF OTHERS. THE GERMANS EXPRESSED STRONG OPPOSITION TO THE NOTION OF THE COMMON FUND BUT, LIKE

THE BRITISH, APPEARED TO BE TOYING WITH THE IDEA OF SUGGESTING SOMETHING WITH ELEMENTS WHICH THE DEVELOPED COUNTRIES FIND MORE CONSTRUCTIVE AND ELIMINATING THOSE MOST OBJECTIONABLE.

11. A KEY FEATURE OF ALL THE DISCUSSIONS WAS THE RECOGNITION THAT THE LDC'S WERE IGNORING THE SIGNIFICANT EFFORTS WE WERE NOW MAKING AND THE LEVEL OF RESOURCES NOW MOVING OUT THROUGH THE COMPENSATORY FINANCE FACILITY OF THE IMF. THE EUROPEANS AGREED WITH THE US VIEW THAT THE DIALOGUE WAS IN DANGER OF DETERIORATING INTO A SERIES OF DEMANDS, THE DEVELOPING COUNTRIES ACCEPTING WHAT HAS BEEN GIVEN AND ASKING FOR MORE. THE US SIDE POINTED OUT IN THIS CONNECTION THAT THE COMPENSATORY FINANCE FACILITY HAS ALREADY PROVIDED HUGE SUMS OF MONEY TO THE DEVELOPING COUNTRIES, THUS REDUCING THE AMOUNT OF MONEY AVAILABLE TO THE DEVELOPED COUNTRIES. AN EXAMINA-  
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TION MUST SOON BE MADE OF THE LENDING AND REPAYMENT CRITERIA OF THIS FACILITY.

12. MORE BROADLY, THE US SIDE ARGUED THE DEVELOPED NATIONS MUST PAINT A CLEARER PICTURE OF THE FINITE LIMITS OF DEVELOPED COUNTRIES RESOURCES AND OF THE BROAD COST DIRECTING MORE RESOURCES TO ONE AREA OF THE DEVELOPMENT PROCESS IN TERMS OF THE AMOUNT OF MONEY THAT MIGHT BE DRAWN FROM ANOTHER. BOTH THE BRITISH AND THE GERMANS AGREED WITH APPROACH, AND THE US VIEW THAT WE NEEDED A MUCH MORE CREATIVE INTELLECTUAL PROCESS IN APPROACHING THE DEVELOPMENT PROBLEM. THEY STRESSED, IN ADDITION, THE CONCERN THAT TWO FREQUENTLY IN THE PAST RHETORIC AND PROCEDURAL OR INSTITUTIONAL PROPOSALS HAD SUBSTITUTED FOR CREATIVE THINKING ABOUT HOW BEST TO ADDRESS THE DEVELOPMENT PROBLEM. THE UK, GERMANY AND FRANCE AGREED WITH SECRETARY KISSINGER'S OECD PROPOSAL FOR GREATER COLLABORATION IN CONSTRUCTING A LONG-TERM DEVELOPMENT STRATEGY, AND WERE EAGER TO GET ON WITH THE TALK. ALL THREE RECOGNIZED THE ADVANTAGE OF HAVING A COMMON POSITION RATHER THAN HAVING TO CONSTANTLY RESPOND TO UNIFIED G-19 INITIATIVES.

13. OVER THE NEXT SEVERAL WEEKS, WE PROPOSE TO FOLLOW THAT SCENARIO OUTLINED BELOW:

-- ALLOW MACEACHON TO RESPOND TO PEREZ-GUERREO BASED ON COMMENTS HE HAS ALREADY RECEIVED FROM THE G-8, I.E. DO NOT TAKE THE INITIATIVE FOR A NEW ROUND OF CONSULTATIONS WITH MACEACHON. WE SHOULD, HOWEVER, PREPARE OUR REACTIONS TO THE EC PROPOSALS

ON DEBT, BUT ONLY COMMUNICATE THEM IF MACEACHON  
OFFICIALLY CONVEYS TO US THE EC TEXT.  
(UNDER SECRETARY ROGERS WISHES TO BE INFORMED OF  
ALL COMMUNICATIONS TO AND FROM MACEACHON, AND WILL  
CLEAR ALL US RESPONSES.)

-- PLAN TO MEET OR CONSULT BILATERALLY WITH THE  
THREE AGAIN AS SOON AS WE KNOW THE RESULTS.

-- STATE AND TREASURY SHOULD IN THE MEANWHILE BEGIN  
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PREPARATION OF A PAPER DESCRIBING THE RESULTS WHICH  
MIGHT BE REACHED IN THE CIEC, AND DEVELOP THE ACTUAL  
LANGUAGE OF A FINAL DOCUMENT.

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